NOVEMBER 15, 1990
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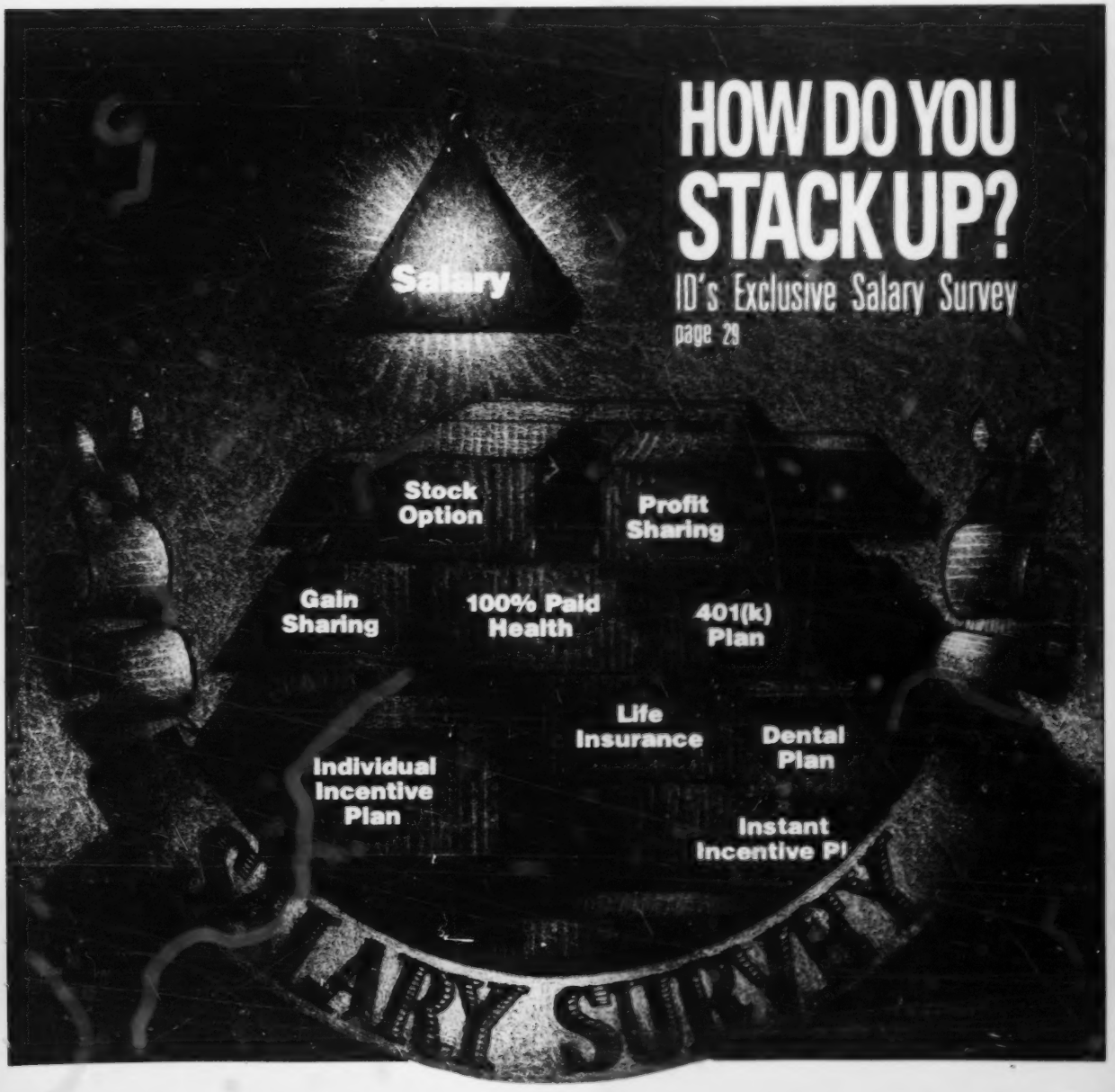
Industrial Distribution

THE MANAGEMENT & SALES MAGAZINE FOR DISTRIBUTORS

SPECIAL:

Rack and Shelving Outlook



Industrial Distribution

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VOL. 79, NO. 12 NOVEMBER 15, 1990 A CAHNERS PUBLICATION

ID's annual salary survey shows you where you stand when it comes to compensation.

Cover illustration by Greg Couch

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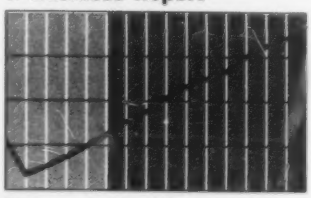

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NEWS

Slow growth ahead for valve market

Leading valve group predicts less than 1% growth for 1991; points to oil and petroleum industries as bright spots.

Continued fears of a national recession are real as the Valve Manufacturers Assn. of America (VMA) predicts shipments of industrial valves to increase by less than 1% next year.

This is clearly bad news for the industry, says VMA's, Bill Sandler, particularly when the figure is adjusted for a 5% inflation rate. "Unfortunately, this means a decline in real terms," he notes.

Translated into dollars, VMA forecasts valve shipments to reach $2.635 billion in 1991, as opposed to $2.627 billion in 1990 and $2.596 billion in 1989.

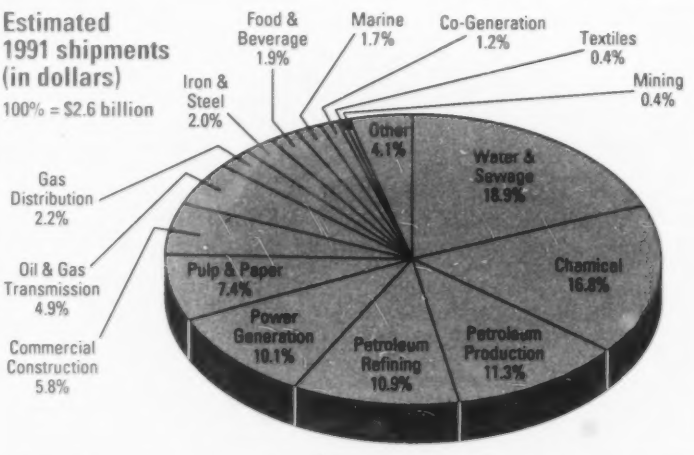
Despite the slow growth, Sandler expects the petroleum producing and refining industries to pick up larger market shares next year (see charts). This is due largely to the upswing in drilling activity following Iraq's Aug. 2 invasion of Kuwait.

In addition, Sandler says the processing industries, including chemicals, pulp and paper will also increase their shares in 1991, but at a slower rate than during the past two years. He also expects the power generation and commercial construction industries to fall in market share next year.

WHO'S BUYING VALVES?

By end user market (1990 vs. 1991)

	1990%	1991%	% Difference
Petroleum Production	10.9	11.3	+0.4
Petroluem Refining	10.6	10.9	+0.3
Chemical	16.5	16.8	+0.3
Co-Generation	0.9	1.2	+0.3
Oil & Gas Transmission	4.7	4.9	+0.2
Pulp & Paper	7.2	7.4	+0.2
Textiles	0.4	0.4	
Mining	0.4	0.4	
Gas Distribution	2.2	2.2	
Marine	1.7	1.7	
Water & Sewage	18.9	18.9	
Iron & Steel	2.1	2.0	-0.1
Food & Beverage	2.0	1.9	-0.1
Commercial Construction	6.2	5.8	-0.4
Power Generation	10.5	10.1	-0.4
All Other	4.8	4.1	-0.7



Source: Valve Manufacturers Assn. of America

DISTRIBUTORS AGREE

Frank Finkel, president of Davis & Warshow in New York City, agrees with VMA's assessment of the year ahead. "I think as things stand now, we're looking at a year of flat growth in 1991," he says. "But if the situation in the Middle East is somehow settled in the next few months, we'll go back to a situation of more moderate growth."

And Ron Yeakle, president of Pensacola-based Piping & Equipment, Inc., also expects a flat year in 1991. "While it's been slow, we've been getting a lot of work from engineering companies who are busy with de-bottlenecking work for the chemical processing plants and oil refineries," he says. "As far as servicing the oil drilling industry, we don't do much of that."

But Ken Wilson, a salesperson for

Vinson Supply's Oil Country Group in Tulsa, Okla., says that while sales of tubing and casing to the oil industry have picked up, drilling activity is still far below pre-1982 levels.

"In the early 1980s, there were 4,500 rigs in the U.S.—now we're down to about 1,000," he says. "After what happened here in the mid-80s, investors are being more careful and the banks have clamped down on credit. I don't expect a boom, but I do see a steady climb back up."

A MANUFACTURER'S VIEW

Daniel De Santis, president and CEO of Neles-Jamesbury, a manufacturer based in Worcester, Mass., agrees with Vinson's Wilson.

"The so called boom in the oil patch isn't going to happen as quickly as people were led to believe," he says. "Not only is drilling way down compared to pre-recession levels, but skilled workers have relocated to other areas of the country."

On the whole, De Santis predicts a flat year for most of industry, with a slightly larger increase if the Middle East crisis is settled. "If a settlement is reached in the Gulf, oil prices will come down, which should lead to an increase in capital expenditures," he says. "But at this point, it's really difficult to predict what will happen."

For more detailed information on the valve market, contact the VMA at (202) 331-8105. □

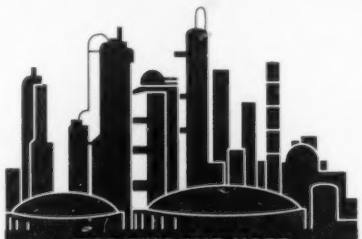
Users to stress vendor quality

BOSTON—A recent Boston University (BU) study reports that improving vendor quality is one of the top five objectives cited by manufacturing end-users.

BU's Manufacturing Roundtable, a research center which promotes manufacturing management knowledge, released the 1990 Manufacturing Futures Survey in September.

According to Jay S. Kim, assistant professor of operations at BU's School of Management, improving vendor quality ranked second on the list, following improving conformance quality.

"While in years past, manufacturing's focus may have been on quality



TOP FIVE END USER OBJECTIVES FOR 1990:

1. Improve conformance quality.
2. Improve vendor quality.
3. Reduce unit costs.
4. Reduce overhead costs.
5. Reduce product development cycle.

Source: Boston University School of Management.

or price, it's interesting to note that distributor performance now stands at number two," says Kim.

George Sachs, president of newly formed Tri-Star Industrial Supply, Inc. of St. Louis, Mo., agrees with Kim. "It's heartening to see that reducing price isn't number one on the manufacturers' list," Sachs says. "Quality performance should be at the top. After all, distributors provide a value added service—and that's all."

The roundtable confirms what distributors have been saying all along, says Robert Kraisner of the Strong Tool Company in Cleveland. Notes Kraisner, "While before, manufacturers looked at the distributor as nothing more than a supplier, now they want us to be a partner. So to keep them, we need to do more than just supply—we have to control quality, responsiveness, exposure to safety and hazards and more." □

Norton makes push into ceramics with new tech center

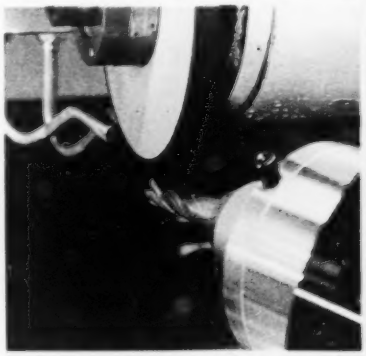
WORCESTER, MASS.—Distributors calling on customers interested in the durability of ceramic parts can now refer end users to Norton Co.'s Ceramic Machining Technology Center (CMTC).

Dr. K. Subramanian, Norton's director of R&D and ceramics market development, says CMTC is a state-of-the-art grinding facility with a dual purpose.

First, Norton wants to educate the industrial buying public that ceramic grinding technology exists. And second, as a service to industry, CMTC is set up to become an R&D lab for the end user. Subramanian says that the new center is capable of both testing a new product and building a prototype model up to a few thousand parts.

"Currently, ceramic grinding is heavily dependent on individual operators working with general purpose machines," says Subramanian. "Now that we've developed a way to form ceramic parts using modern grinding equipment and superabrasive wheels, industry can test a new product with us before investing millions of dollars to go into production."

The cost of CMTC's services will vary depending on the project, says Subramanian. For more information, call Norton at (508) 795-5709. □



Norton Co. has developed a way to efficiently grind ceramic parts.

Customer takes center stage at Central Convention

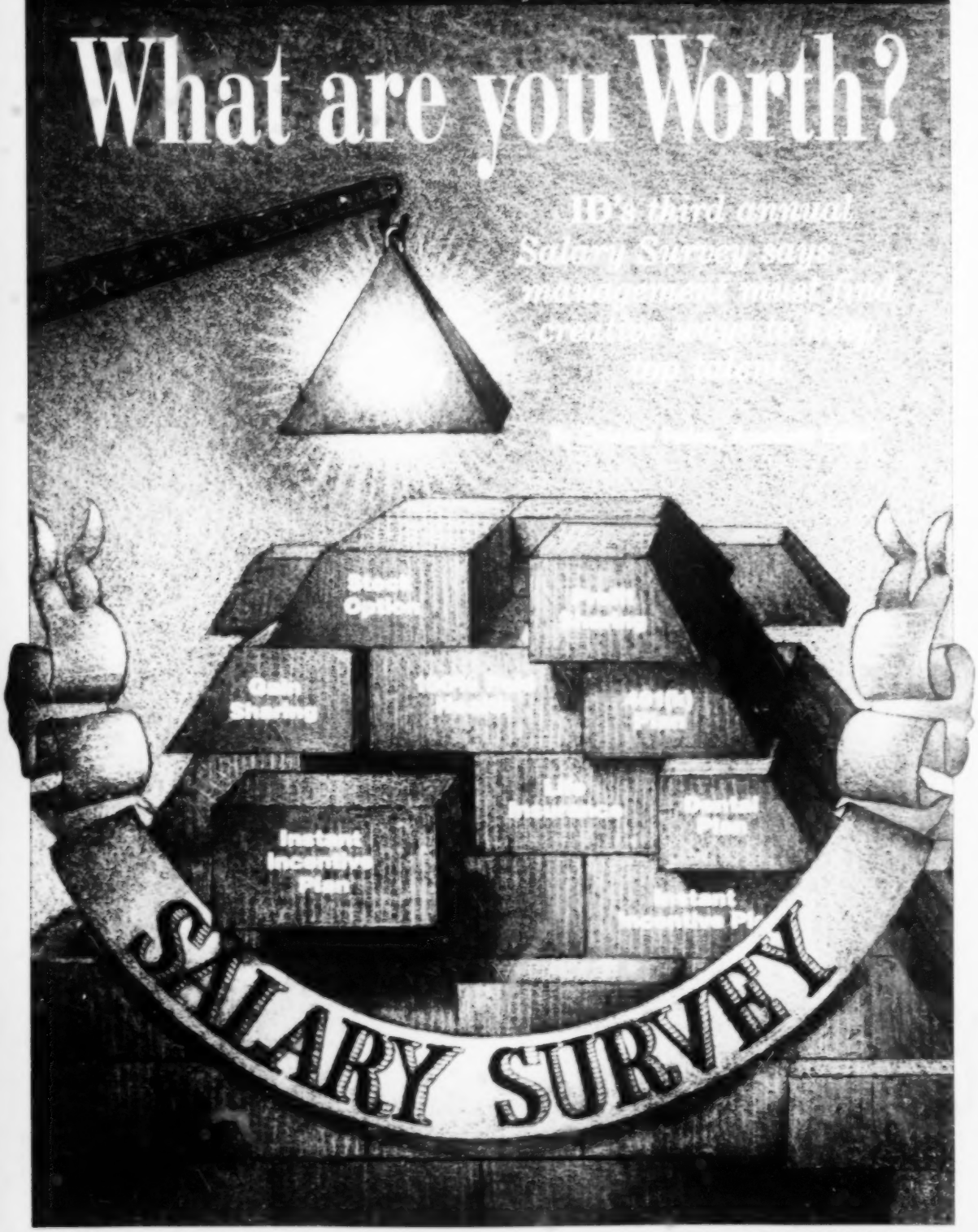
ATLANTA—Providing top notch customer service is the focus of the Industrial Distribution Assn.'s (I.D.A.) I·D·A Central Convention in Chicago later this month.

Known for its "all business" format, the Central meeting, scheduled for November 17-19 at the Hyatt Regency O'Hare, features nine hours of conference booth sessions over a two day period.

In keeping with the customer service theme, keynote speaker Mike Workman of Texas A&M will

What are you Worth?

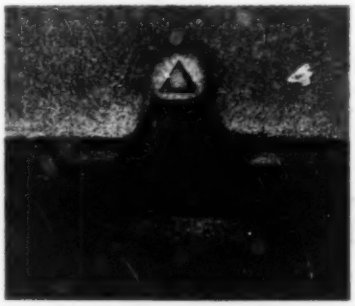
ID's third annual Salary Survey says



Salary survey

Managers take note. If you pay your employees a straight salary—your compensation methods could be outdated. What's worse—you stand to lose your best talent.

Think we're overeacting? One Midwestern distributor we talked to says he's lost two valued employees recently because of salary inadequacies. "My employees left the company for more money at another distributorship," he says. "Had I known I was underpaying them, I would have upped their salaries in order to keep them. But, instead, I lost them to my competitor."



Dick Hall, president of Portland Rubber Co. in Portland, Maine, has no intentions of falling into the same trap. His compensation philosopy is "the more you give, the more you will receive." Translated to mean the higher the reward for efficient performance, the higher the productivity and profits, Hall has instituted a system of compensation which ties together salary with profit sharing and benefits.

According to Charles Peck, senior research associate for The Conference Board, a business management and economic research organization, Hall is at the leading edge of compensation. "In the past few years, there's been a surge of interest in variable pay—everything from profit sharing to stock options and incentive plans," he says. "It's a real hot topic in business right now."

Hall may be at the leading edge, but research shows that other distributors are slow to jump on the incentive bandwagon. While 47% have instituted profit sharing plan, only a small percentage have adopted other variable pay methods. That's one reason **ID** commissioned this survey for the third year in a row.

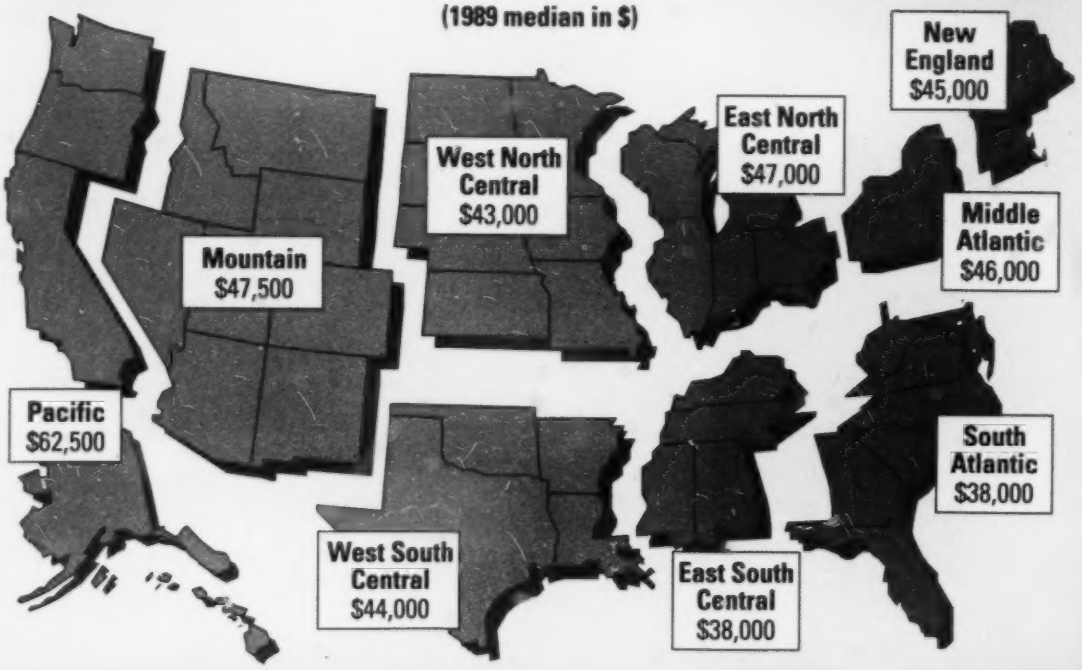
We polled those perspectives and tallied responses from more than 700 distributors—from owners and CEOs to the counter staff. And while it's important to note that inequalities appear due to inconsistencies in the types and numbers of respondents in each category, **ID's** Annual Salary Survey *will* show you where you stand.

Are you in the right region?

Measuring regional compensation is one of the most difficult tasks of this survey, and the reasons why are clear. First, the number of responses varies sharply from one region to the next—by nature offsetting the comparison's rate base. Further, it's impossible to glean a strong understanding of the median salaries on a regional basis because the distributor size and sales volume isn't identified. What the table does tell you, however, is that if you're on the West Coast and you want to move East—you can expect to earn a comparable salary. If you are moving to the mountain states, however, you should plan on cutting your income considerably. Keep in mind though, cost of living will impact your income no matter where you live.

WHICH REGION PAYS BEST?

(1989 median in $)



REGIONAL COMPENSATION BY JOB TITLE

(1989 median in dollars)

Title	Owner	CEO	Treasurer	VP Sales	Purchasing Manager	Ass't Sales Manager	Outside Sales	Inside Sales	Counter Sales
New England	110,000	85,000	40,000	30,000	NA	30,000	NA	30,000	NA
Middle Atlantic	87,500	112,500	35,000	55,000	38,000	40,000	40,000	22,000	NA
East North Central	100,000	80,000	52,800	55,000	26,600	37,000	38,300	16,500	30,000
South Atlantic	108,000	50,000	40,000	60,000	NA	30,000	33,000	17,500	NA
East South Central	80,000	50,000	50,000	45,000	30,000	33,300	20,000	15,000	NA
West North Central	70,000	125,000	50,000	50,000	30,000	35,000	46,600	30,000	NA
West South Central	70,000	70,000	46,200	45,000	30,000	35,000	44,000	18,700	NA
Mountain	70,000	70,000	50,000	60,000	NA	40,000	30,000	15,000	NA
Pacific	70,000	93,000	66,600	66,600	30,000	35,000	50,000	NA	NA

NA = Data not available.

Higher sales = higher salary??

It would stand to reason that if a company is making more money, they can afford to pay their employees more generous salaries. Once again, our survey reflects that reasoning. With little variation, salaries increase in tandem with company sales. However, as you'll notice, this trend is far more evident in the highest ranks of the corporation. So, if you happen to fall on the low end of the scale at a large company and you're salary doesn't reflect high sales volume, you might wonder whether you're being paid the same to do twice as much work!

COMPENSATION BY DISTRIBUTOR SALES SIZE

(dollar volume in millions)

Sales Size	< $1M	$1M-3M	$3-6M	$6-10	$10-20M	$20M+
Total	$44,249	$51,538	$58,491	$70,538	$58,447	$74,865
Owner	54,604	64,473	96,817	111,666	130,750	204,250
CEO/Pres.	54,604	64,473	52,499	83,499	73,332	114,374
Treasurer	28,749	41,428	54,999	57,045	59,614	63,749
VP Sales	31,874	54,999	41,666	55,832	62,856	56,249
Purchasing Manager	NA	31,666	34,999	22,999	23,888	21,666
Asst Sales Mgr	NA	NA	19,999	28,333	28,333	37,499
Outside Sales	35,000	22,143	41,250	47,000	34,230	52,187
Inside Sales	NA	16,000	23,999	28,333	23,866	24,090
Counter Sales	NA	NA	NA	NA	15,000	15,000

Climbing the financial ladder

It's just as you might imagine. The top people pay themselves for jobs well done, and the increases decrease down the ranks. The exception to the rule? Outside sales. Receiving the second highest annual percentage increase this year (12%), outside sales offsets the 8.89% average considerably. As well it should. The outside sales force is characteristically responsible for the vast majority of a company's revenues and is paid for its role accordingly.

SALARY INCREASE BY JOB TITLE

(% range of last increase)

Range	Avg % increase	1-5%	6-10%	11-15%	16%+
% receiving increase	8.89	44	35	9	12
Owner	12.00	27	41	9	23
CEO/Pres.	9.00	43	34	9	14
Treasurer	9.17	38	44	7	12
VP Sales	8.65	35	48	9	9
Purchasing Manager	6.31	63	25	6	6
Asst Sales Manager	6.73	52	33	9	7
Outside Sales	11.76	46	24	12	19
Inside Sales	7.47	50	30	13	8
Counter Sales	4.25	75	25	—0—	—0—

Specialty house = special treatment

This year, unlike last, specialty house respondents report receiving higher salaries than those of either combination houses or general line distributorships. Specialty houses, qualified as distributorships which stock more than 50% of one product category, beat the incumbent—combination houses. And it's interesting to note that, aside from the owner and outside sales categories, general line personnel received about $10,000 less than specialty house employees across the board.

COMPENSATION BY BUSINESS TYPE

(average salary in dollars)

Business type	Combination House	Specialist	General line
Owner	$106,000	$112,000	$129,000
CEO/Pres.	139,000	110,000	94,000
Treasurer	53,000	58,000	52,000
VP Sales	62,000	72,000	53,000
Purchasing Manager	32,000	37,000	27,000
Asst Sales Mgr	40,000	41,000	29,000
Outside Sales	28,000	45,000	43,000
Inside Sales	35,000	33,000	22,000
Counter Sales	NA	NA	NA

Money matters

The U.S. economy is shaky at best these days—with isolated regions like the Northeast most strongly affected by the crunch. But, ID's survey respondents are making a strong showing, despite the recession. Recording an average of $1.64 million in company-wide sales this year—employees and owners alike are sharing in the profits. The survey shows that unlike last year, distributorship owners are earning more than their notoriously well-compensated CEO's and presidents. Outside salespeople, commonly perceived as strong revenue generators are also making more than they made last year. And, counter salespeople are getting less of the profit pie than they have in previous years.

COMPENSATION BY JOB TITLE

(1988 average)

Average	Owner	CEO/Pres	Treasurer	VP Sales
$59,814	$115,262	$108,941	$54,345	$63,356
Purchasing Manager	**Ass't Sales Manager**	**Outside Salesperson**	**Inside Salesperson**	**Counter Sales**
$29,571	$35,655	$41,744	$28,145	$19,000

Getting the incentive you need?

One of the most significant findings of last year's survey was that sales employees—including inside sales people and counter sales professionals—failed to receive incentive compensation for their sales work, other than their standard salaries. One of the most surprising results of this year's survey is that this percentage has decreased considerably. While 48% of inside salespeople and 60% of counter salespeople received no incentive compensation whatsoever last year, both groups reported a change for the better this year. Last year's figures have dropped to 40% for each, and respondents now report receiving compensation as a result of company or branch profitability and sales volume experience, as well as individual profitability.

TYPE OF COMPENSATION BY JOB TITLE

(% receiving incentive compensation*)

Job Function	VP Sales	Ass't Sales Manager	Outside Sales	Inside Sales	Counter Sales
Company or branch profitability	38	38	9	26	40
No incentive compensation	25	27	12	40	40
Company or branch sales volume performance	27	28	4	16	20
Individual sales volume performance	10	13	33	13	–0–
Individual profitability	6	3	43	11	20

*Totals do not equal 100% due to multiple responses.

Experience is everything

Read the Want Ads for a position in any industry, and you'll undoubtedly see the words 'Experience necessary' followed quickly by, 'salary commensurate with experience.' Our experience table reflects those sentiments exactly. Not only do we completely lack respondents in the CEO/Pres. category with less than seven years experience, but every rank boasts an increased salary as the years progress. It's an encouraging finding when you consider how many industries often pay according to disparaging factors. It would seem it pays to know what you're doing in industrial distribution. And some would argue, that's the way it should be.

Now the question is, where does academic background come in? It appears that experience is even more important than higher education in the distribution field. According to our survey, less than 50% of those polled reported having a bachelors degree, and only 7% hold a masters.

COMPENSATION BY EXPERIENCE

(average salary by years of distribution experience)

Experience in yrs.	3 or less	4–7	8–15	16–20	21–25	26–30	31–35	36 +
Owner	$60,000	$56,000	$70,000	$124,000	156,00	$126,000	$127,000	136,000
CEO/Pres.	–0–	–0–	90,000	133,000	142,000	70,000	109,000	89,000
Treasurer	38,000	45,000	44,000	56,000	63,000	84,000	93,000	NA
VP Sales	42,000	39,000	52,000	79,000	86,000	65,000	61,000	NA
Purchasing Manager	15,000	23,000	30,000	45,000	28,000	33,000	25,000	55,000
Asst Sales Mgr	22,000	32,000	32,000	41,000	47,000	55,000	35,000	45,000
Outside Sales	23,000	39,000	44,000	46,000	39,000	53,000	50,000	54,000
Inside Sales	15,000	18,000	29,000	22,000	27,000	28,000	–0–	–0–
Counter Sales	15,000	NA	15,000	35,000	NA	NA	NA	

N.A. – Data not available.

It gets better with age...or does it?

One of the components of this survey that may serve to satisfy your personal curiosity is the age breakdown of industrial distribution's star players. You know how old you are and how far you've come—but how do you measure up in comparison to your contemporaries?

As might be expected, our findings record 42 as the average age of distribution personnel. Owners and CEO's are characteristically in their 50's and the ages decrease almost evenly according to position after that. The 60-65 age category lacks strong representation, which is somewhat surprising considering the network of long established distributors. But, we could speculate, maybe those distribution Veterans are getting smart—heading for the golf course instead of the office.

In any case, a more profound finding of this part of our survey was the lack of representatives from the younger generation. As the chart points out, distributors under the age of 30 are few and far between. Whether those young people are the offspring of that strongly grounded network of distributors, or a competely new breed of energetics remains to be seen.

HOW OLD ARE YOU COMPARED TO YOUR ASSOCIATES?

(% in each age group)

Age	Average	Owner	CEO/Pres.	Treasurer	VP Sales	Purchasing Manager	Ass't Sales Manager	Outside Sales	Inside Sales	Counter Sales
29 years or younger	10.6	2	–0–	4	7	10	20	16	24	20
30 to 39 years	31.6	13	9	37	37	46	39	35	36	60
40 to 49 years	29.4	26	28	43	35	23	28	26	30	–0–
50 to 59 years	18.6	35	43	9	17	13	12	15	8	–0–
60 to 65 years	7.8	17	20	6	3	7	2	5	2	20
66 years or older	2.0	6.4	–0–	1	1	–0–	–0–	3	–0–	–0–

Average Age: 42

Perking up profits

The Conference Board's Peck notes that variable compensation could be an excellent compensation tool in industrial distribution. He explains, "The efficiency with which employees move products through the warehouse is a concrete measurement of their productivity. And this productivity is clearly reflected in increased sales volume for the company. Therefore, gain sharing and profit sharing might be effective plans for distributors to adopt."

Hall is just one believer in this compensation philosophy. And, he uses a poignant example as illustration. "As soon as we implemented our profit sharing plan, our strapping costs went down from $3,000 to $240 per month because employees noticed that we were discarding re-usable strapping," he relates. "That savings resulted in increased profits and was reflected in our employee's very next paycheck. Now they are conscious of similar savings all around because they receive immediate reward for their efforts."

That's how Hall pays his workers. What does the rest of the industry do? While profit sharing ranked first, the pension plan ran a close second at an average of 44%, which is no surprise considering the average age of respondents was 43. 35% of the respondents reported participation in a 401(k) plan, a common finding in business today according to Peck. And, employee stock ownership edged out last year's fourth place finisher, the salary investment plan, with a low 16% participation level.

While additional benefits such as life, health and dental insurance come under a whole different category when considering compensation, they are just as important, if not more so, to most people. Ringing in at 81.4%, life insurance was the most commonly offered benefit by distribution houses for the second year in a row. Partially paid and 100% health coverage were also high on the list, both showing in the low 50% range.

Interestingly, a comprehensive dental plan ranked highest in the most wanted benefits category. 49% of respondents expressed an interest in this benefit, perhaps a reflection of the high cost of dental insurance when purchased on an individual basis. This year, both stock ownership and profit sharing were strongly desired benefits as well. Perhaps these responses represent the peaking interest Peck refers to in his research?

WHO GETS WHICH BENEFITS?

(% receiving benefits)

		Job function								
	Average	Owner	CEO/Pres	Treasurer	VP Sales	Purchasing Manager	Ass't Sales Manager	Outside Salesperson	Inside Salesperson	Counter Salesperson
Life insurance	81.4	82%	91%	81%	82%	87%	78%	73%	79%	80%
Partially paid health	57	29	47	53	54	69	60	73	73	80
Profit sharing	47.2	42	53	46	48	44	57	45	53	60
Pension plan	44.2	45	53	41	34	43	50	42	45	60
100% paid health	40.7	68	53	46	25	35	24	25	20	
401(k)	35.4	19	32	40	36	38	50	41	33	40
Partially paid dental	31.9	18	23	38	24	38	33	38	40	40
100% paid dental	13.2	22	25	15	9	7	17	6	-0-	
Salary investment plan	11.9	6	4	13	16	12	13	17	16	-0-

. . . AND WHO WANTS WHAT

(% wanting benefits)

		Job function								
	Average	Owner	CEO/Pres	Treasurer	VP Sales	Purchasing Manager	Ass't Sales Manager	Outside Salesperson	Inside Salesperson	Counter Salesperson
100% paid dental	49.5	35	50	41	49	59	49	55	50	
100% paid health	42.5	16	29	31	37	57	51	51	55	75
Pension plan	38.3	43	33	37	41	43	41	33	36	50
Employee stock ownership plan	36.6	13	33	45	49	35	47	33	50	
Profit sharing	29.9	21	21	24	34	35	24	35	36	25
401(k)	27.2	33	25	23	24	25	22	30	31	50
Salary investment plan	24.2	21	8	23	29	21	25	50		
Partially paid dental	18.7	14	4	16	17	19	26	16	26	25
Day care assistance	13.9	6	-0-	11	9	25	29	12	15	25

Satisfaction guaranteed?

As might be expected, individual job satisfaction varies according to position—the higher the position, the more money you make. And it stands to reason too that the more money you make, the more satisfied you are with your job.

Our survey proves that theory without a doubt. Owners and CEO's were in the high 80th and 90th job satisfaction percentiles, while the lower ranks came in almost evenly behind them. One noticeable discrepancy, however, was the purchasing manager. Claiming an income of about $30,000, he ranks between the assistant salesperson and the inside salesperson in earnings. And his job satisfaction is low. In fact, 71% of those purchasing managers polled expressed dissatisfaction with their salaries.

The simple answer to elevating job satisfaction among your employees might be to raise salaries. But, that's easier said than done. After all, if you pay one employee more for assuming the same responsibilities, you are obligated to pay the rest of your staff accordingly in order to be fair. And you don't need ID to tell you that this can become expensive. What's your other alternative? One way to improve job satisfaction levels is to consider additional elements that may contribute to the satisfaction process. Everything from level of creativity and independence afforded to the amount of decision-making power given to employees might prompt them to draw satisfaction from their individual positions—regardless of how they are compensated. □

ARE YOU SATISFIED WITH COMPENSATION?

(% of respondents)

Job Function	Owner	CEO/Pres.	Treasurer	VP Sales	Purchasing Manager	Ass't Sales Manager	Outside Sales-person	Inside Sales-person	Counter Sales
Yes	89	85	59	59	16	44	63	36	25
No	6	12	33	31	71	49	34	55	50
Don't Know	5	4	7	10	13	7	3	9	25

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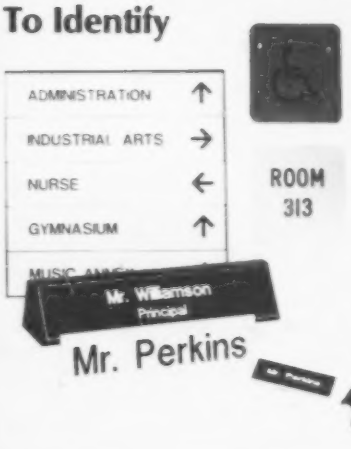
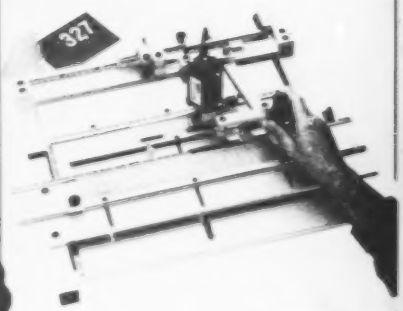
To Identify



To Inform

It's Easy



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BUSINESS REPORT

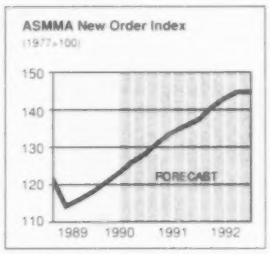
BY PAUL WATERS

Recession concerns high

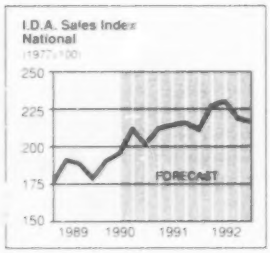
Economy, however, should escape.

Recent events such as the Middle East crisis have caused more forecasters to think a recession is imminent. But even before the Iraqui invasion, the economy was weak. Consumer confidence levels were slipping and business spending was down. Housing starts, an accurate leading indicator of general economic health, were trending downward.

Consumer confidence, in particular, has suffered lately. Responding to all of the recent dim news, the consumer confidence index dropped sharply in August (the month of the Iraqui invasion) to 83.8 (1985 = 100). This was its lowest level since early 1983. Consumer spending also has been sluggish.



Data source: ASMMA
Forecast source: Cahners Economics

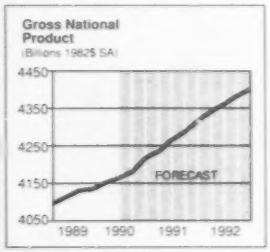


Data source: I.D.A.
Forecast source: Cahners Economics

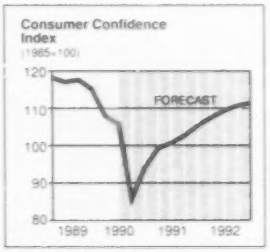
From January to July, retail sales increased 4.1% above the same period a year ago. Adjusted for inflation, however, growth inched up only 0.5%. This is further evidence that manufacturing will be the driving force of the next recovery, not the consumer sector. Nonetheless, once the upturn begins early next year, consumer spending will revive. Retail sales will climb 4.8% this year and 6.1% in 1991 before inflation. After adjusting for price increases, though, look for only a 0.5% rise this year and a 0.8% climb in 1991.

Interest rate movements will play a key role in the next recovery and they remain difficult to anticipate. The slowdown has reduced the demand for consumer and business borrowing, putting downward pressure on interest rates. Concern over international oil availability, on the other hand, has boosted oil prices, adding to inflation and putting upward pressure on interest rates. So far, short and long term rates have reacted differently to the two forces. Short rates have hardly moved at all since the Iraqui invasion, while long term rates have increased over one half percent.

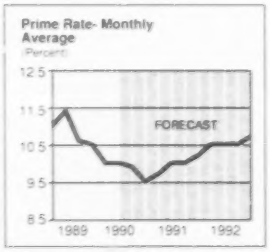
In short, the fundamentals do not support a severely recessionary outlook. The past year of slow growth has seen consumers and businesses adjust by reducing debt and inventory levels. Also, inflation and interest rates have come down, laying the groundwork for the next upturn. Look for GNP to expand a mere 1.4% this year, but to grow 2.3% in 1991. □



Data source: Commerce Dept.
Forecast source: Cahners Economics



Data source: The Conference Board
Forecast source: Cahners Economics



Data source: Federal Reserve Board
Forecast source: Cahners Economics

Data source: Dept. of Commerce
Forecast source: Cahners Economics

(1977=100)	SALES Aug. 1990	July 1990	Aug. '90 vs Aug. '89 % change	RECEIVABLES Aug. 1990 days	INVENTORY Aug. 1990 % change
TOTAL	229.1	212.8	7.7	39.7	-1.5
EAST	189.4	178	5.8	44.8	-1.1
SOUTH	358.6	331	8.3	37.4	-3.3
CENTRAL	182.3	165.8	10.0	41.1	-1.1
WEST	233.6	214	12.0	31.2	-1.1

SOURCE: Industrial Distribution Assn.

SUPPLY OUTLOOK

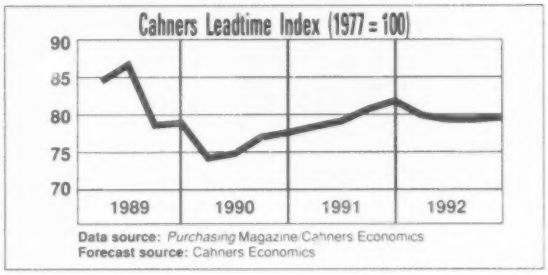
BY PAUL WATERS

Stagflation will be avoided

GNP growth will be moderate but inflation tame.

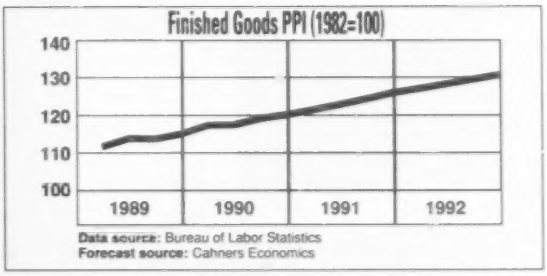
Inflation continues to be one of the leading news topics because of the Middle East crisis. One fear that looms large is that the economy is slipping back into the stagflation that occurred during the oil price shocks of the 1970s. With economic growth expected to finish at only 1.4% this year and inflation boosted by skyrocketing oil prices, it takes little imagination to picture stagflation.

As is usually the case, however, a closer look at the numbers reveals a different picture. While inflation will be more severe during the next couple of months, the economy is resilient enough to maintain growth. First let's look at the inflation situation. Inflation on intermediate materials and components will finish 1990 up 1.5% This is clearly not a worrisome figure. For 1991, however, inflation will accelerate by 4.6% as manufacturing rebounds. This is simply because materials and components will be in higher demand and capacity will come under modest pressure. For finished goods, expect producer prices to jump 4.4% this year because of the energy price surge. Next year, finished goods inflation will stay near 4.3% as the economy warms.

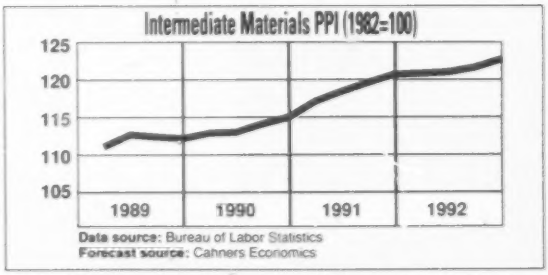


For the OEM sector, the story is similar. Inflation on fabricated metal products will finish 1990 up only 1.8%. Next year though, look for fabricated metal prices to balloon 4.7% as demand outpaces supply. For similar reasons, the index for industrial machinery will rise 3.2% this year, but jump 4.5% in 1991. Metal cutting machine tools will be up 5.3% and 6.0% in 1990 and 1991, respectively. Expect material handling equipment prices to swell 2.8% this year and 3.0% in 1991.

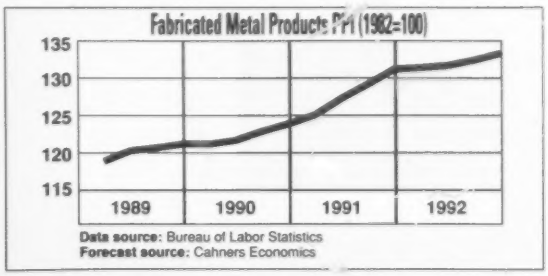
The bottom line is, while GNP forecasts have been revised downward, the U.S. will see positive growth this year and next. Although inflation rates have jumped, they are still expected to be slow.



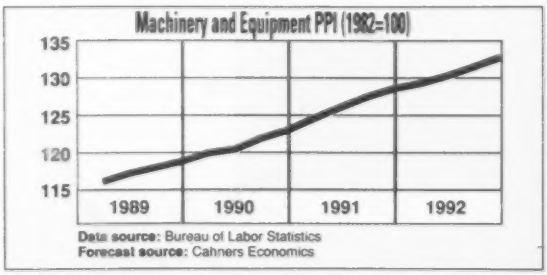
Producer prices on finished goods will rise a manageable 4.4% in 1990. Expect a non-alarming 4.3% jump in 1991.



Intermediate goods producer prices will only climb 1.5% this year. As the economy warms, expect a 4.6% jump in 1991.



Prices on fabricated metal products will be tame this year, rising only 1.8%. Inflation will pick up in 1991-92.



Prices on industrial machinery will rise 3.2% this year due to steady investment levels. Look for a 4.5% jump in 1991.

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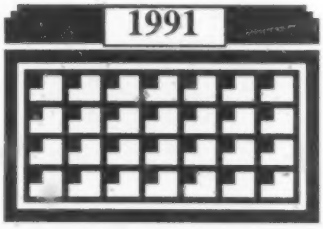

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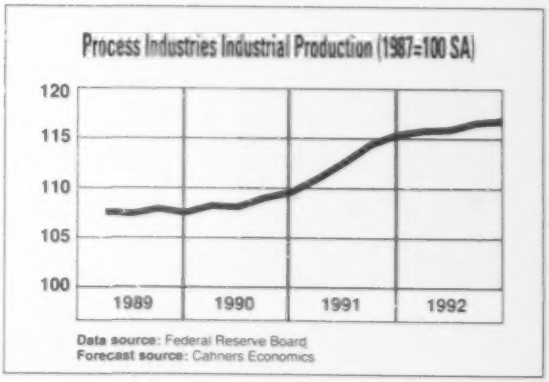
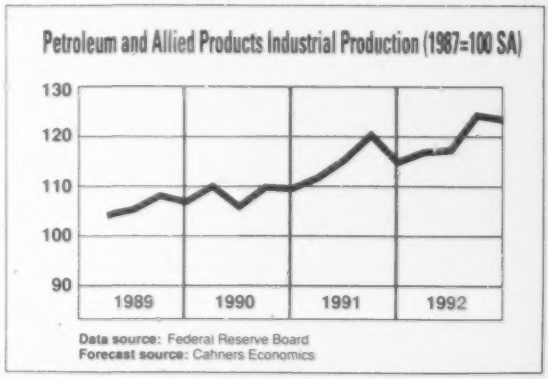
SUPPLY OUTLOOK

Growth in process industries

Both the process industries and the OEM sector will experience growth in the next two years. The process industries will be the first to rebound, followed by OEM in 1991-92. Expect process industry output to rise 1.1% this year, 4.3% in 1991, and 2.6% in 1992. Paper output will jump 2.3% in 1990 and 4.1% in 1991. Expect chemicals to inch up 1.3% and 3.5% in 1990 and 1991 respectively. Not surprisingly, petroleum will see solid output gains over the next few years. Expect a 2.5% jump this year, followed by a 6.2% surge in 1991. Plastic processing has already begun to rebound and will manage a 2.7% gain this year. Next year will bring a 5.7% jump as plastic continues to displace traditional materials. Clay, stone, and glass have been hurt by the construction slump and will slide 1.3% in 1990. As construction rebounds in 1991, though, the industry will gain 3.7%. Hurt by the OEM slowdown, primary metals will be flat this year. However, expect OEM resurgence to pull primary metals up 4.6% in 1991. □



Process industries output will grow slowly this year, but are about to turn around. Expect output to grow 1.1% this year and 4.3% in 1991.



The petroleum industry (and the oil belt) will benefit from high oil prices. The result: a 2.5% jump in 1990, followed by a 6.2% rise in 1991.